

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 302 – HB 1194

March 16, 2015

SUMMARY OF ORIGINAL BILL: Authorizes franchise and excise (F&E) job tax credits for part-time and seasonal adventure tourism jobs, with or without minimum health care, created in adventure tourism districts since June 1, 2011, if a majority of the duties for such jobs involve adventure tourism. Establishes that such jobs will count as one-half of one job of the purpose of calculating the number of jobs that a qualified business has created.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – \$311,600

Forgone State Revenue – \$123,000

IMPACT TO COMMERCE OF ORIGINAL BILL:

Decrease Business Expenditures – \$311,600

Business Expenditures – Cost Avoidance - \$123,000

Jobs Impact – Exceeds 200

SUMMARY OF AMENDMENT (004104): Establishes that only jobs created since July 1, 2014 can qualify for the tax credit. Establishes the minimum number of hours for the seasonal and part-time employment for those jobs to be considered qualified for the tax credit. Requires that such positions did not exist in this state for at least 36 months prior to being filled by the taxpayer.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – \$82,000

Forgone State Revenue – \$41,000

Assumptions for the bill as amended:

- The Department of Economic and Community Development (ECD) reports that there were 38 districts designated as adventure tourism districts in 2014.

- The Department of Revenue (DOR) reports that the average combined F&E tax liability of qualifying business enterprises is approximately \$16,400, and that job tax credits may be used to offset up to 50 percent of total F&E tax liability.
- Utilizing the lowest, and easiest to meet qualifying criteria, the minimum amount of credit received by qualified businesses is estimated to be \$58,500 (13 jobs in a Tier 3 county x \$4,500 credit). However, only \$8,200 in tax credits can be used on average by qualified businesses (\$16,400 average F&E tax liability x 50.0% limitation). As a result, it is assumed that qualifying taxpayers will apply credit toward their F&E tax liability at a minimum of \$8,200 per year.
- Given that the proposed legislation as amended would grant F&E tax credits for existing jobs that have been created since July 1, 2014, credits that would not be granted under current law, the revenue impact to the state associated with tax credits claimed for those jobs is considered to be a decrease in state revenue. It is assumed that at least ten entities will employ current positions sufficient for qualifying for the tax credit. Thus, the recurring decrease in state revenue is estimated to be \$82,000 (10 businesses x \$8,200 credit).
- It is further assumed that at least 5 companies will create new jobs as a direct result of this bill as amended, jobs that would not have been created in the absence of the bill as amended, and such jobs will also qualify for the credit.
- Given that the Adventure Tourism and Rural Development Act of 2011 requires the Commissioners of ECD and DOR to make a determination that the job tax credits authorized will be in the best interest of the state, and that the newly-created jobs will only be created as a result of the proposed job tax credits, the revenue impact to the state is considered to be forgone revenue. Thus, the total recurring forgone state revenue is estimated to be \$41,000 (5 businesses x \$8,200 credit).
- Any decrease in state revenue from existing taxpayers whose F&E tax liability will be reduced as a result of new jobs created that would otherwise not be created in the absence of the bill as amended is estimated to be offset by an increase in state revenue derived from new taxpayers that will start-up, move to, or incorporate in Tennessee, and create new jobs as a direct result of this bill as amended.

IMPACT TO COMMERCE WITH PROPOSED AMENDMENT:

Decrease Business Expenditures – \$82,000

Business Expenditures – Cost Avoidance - \$41,000

Jobs Impact – Exceeds 80

Assumptions for the bill as amended:

- Business F&E tax liability is anticipated to decrease by \$82,000 per year for entities that have already created jobs since July 1, 2014.
- Based on the assumptions stated above, the proposed legislation as amended is estimated to result in 5 companies creating a minimum of 13 full-time equivalent positions, for a

total of 65 jobs. Since a significant number of such positions is estimated to be part-time or seasonal, the total number of jobs created is estimated to exceed 80.

- Jobs created after the enacting date of this bill as amended are assumed to be created as a direct result of this bill as amended and would not be created in the absence of the proposed job tax credits. The impact associated with these new jobs is a business cost avoidance of \$41,000.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink, appearing to read "Jeffrey L. Spalding". The signature is fluid and cursive, with the first name "Jeffrey" and last name "Spalding" clearly distinguishable.

Jeffrey L. Spalding, Executive Director

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